

Agenda Date: October 27, 2004

Item Numbers: A2 & A3

**Docket: UG-041772 and UG-041773**

Company: Cascade Natural Gas Corporation

Staff: Mike Parvinen, Utility Regulatory Analyst

**Recommendation:**

Take no action on the tariff sheets filed in Dockets UG-041772 and UG-041773 thereby allowing them to become effective by operation of law on November 1, 2004, as filed.

**Background:**

On September 30, 2004, Cascade Natural Gas Corporation (Cascade or Company) filed its Purchase Gas Adjustment (PGA) and Deferred Gas Cost Amortization tariffs in Dockets UG-041772 and UG-041773, respectively. The combined effect of the two filings is an increase in annual revenues of \$12,054,891 (4.96%).

Cascade serves approximately 163,600 gas customers in various areas situated primarily along Williams Gas Pipeline. Major Washington locations include Bellingham, Bremerton, Yakima, and Walla Walla.

The PGA and Deferral Amortization mechanisms are designed to pass on actual gas costs to customers. The PGA establishes for the upcoming year what the best projection is going to be for the cost of gas. The difference between the projected cost and the actual cost is deferred and amortized back to customers with interest.

**Purchase Gas Adjustment (PGA):**

Docket UG-041772 is the proposed PGA filing. In this filing, Cascade presents data and methods used in the determination of prospective gas cost for the coming year. The Company is proposing an increase of approximately \$13 million (5.35%) in annual revenue for this portion of the filing.

Following the energy market crisis of 2000-2001, the Company expected natural gas prices to maintain the momentum and continue to increase. As a result, in spring 2001 Cascade signed most of its natural gas supply under fixed-price contracts. These contracts have expired. Cascade has implemented a purchasing/hedging strategy that utilized financial hedges to fix or lock in the price of gas. The Company's intent is to minimize the price

volatility to customers. Staff is concerned that the Company is not maintaining a balanced portfolio by fixing the price on too large a percentage of its portfolio. Customers are somewhat shielded from monthly price volatility by the PGA process itself, which typically changes customers rates only once a year. The issue is what is the prudent amount of supply to fix the price on given the PGA process and given that there is a premium to hedge. Cascade is proposing a weighted commodity cost of gas of \$.57123/therm in this filing. As a result of the purchasing/hedging strategy approximately 60% of price for next year's portfolio is fixed.

### **Gas Cost Deferral Amortization**

Docket UG-041773 is the gas cost deferral amortization filing. This filing is designed to pass on actual gas costs to customers. The difference between the projected gas cost and the actual gas cost is deferred and amortized back to customers with interest, whether it is a refund or surcharge. The tariff sheet results in a decrease in annual revenues of \$967,947 (0.40%).

#### Summary:

The impact of the two filings on a monthly bill to residential customers with consumption of 59 therms will be an increase of \$3.62 (6.64%).

The net effect of the PGA and gas cost deferral amortization filings on the Company's rates and annual Washington revenues is as follows:

	Per Therm <u>Change</u>	Annual Rev <u>Change</u>	Percent <u>Change</u>
Residential	\$.06132	\$ 6,145,988	6.65%
Commercial	\$.06137	\$ 5,003,434	7.32%
Industrial	\$.06160	\$ 748,032	8.18%
Interruptible	\$.06175	\$ 129,651	8.98%
Non-Core	\$.00010	\$ 27,786	0.14%
Total		<u>\$ 12,054,891</u>	<u>4.96%</u>

#### Conclusion:

Staff has reviewed the Company's prospective gas costs and deferral accounts and found

Dockets UG-041772 and UG-041773

October 27, 2004

Page 3

them reasonable. Staff recommends the Commission allow the filings in Dockets UG-041772 and UG-041773 to become effective November 1, 2004, by operation of law.